

**FRIENDSHIP RIDGE
PATIENT ALLOWANCE AND PLANT ACCOUNT
AUDIT REPORT**

Table Of Contents

	Page
Audit Letter	3
Audit Scope And Objectives	4
Statements Of Revenue And Expense	5
Report On Internal Control Structure	8
Findings And Recommendations	10

RICHARD W. TOWCIMAK
CONTROLLER



VINCENT LaVALLE
DEPUTY CONTROLLER

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BEAVER COUNTY COURTHOUSE
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September 2002

Mr. William Jubeck - Administrator
Friendship Ridge Long Term Care Facility

We have audited the records of the Friendship Ridge Patient Allowance and Plant accounts for the period January 1, 2001 through June 30, 2002 and issued our report thereon dated September 2002.

We conducted our audit in accordance with generally accepted governmental auditing standards. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial records are free of material misstatement.

It is the responsibility of management to prepare financial records. It is the responsibility of the office of the controller to audit those records.

Based on our review, we have made the following observations and recommendations as detailed in this report.

A handwritten signature in black ink, appearing to read "Richard W. Towcimak".

Richard W. Towcimak
Beaver County Controller

Scope:

The Patient Allowance and Plant accounts were reviewed for the period January 1, 2001 through June 30, 2002.

Objective:

The following objectives were performed during the audit:

- o Evaluate controls over the Patient Allowance Account
- o Evaluate controls over the Plant Account
- o Evaluate general office procedures

**Patient Allowance Account
Statement Of Revenue And Expense
For The Period January 1, 2001 Through December 31, 2001**

Beginning Balance January 1, 2001	\$442,423.77
Receipts	\$424,485.60
Disbursements	(\$460,710.65)
Ending Balance December 31, 2001	\$406,198.72

**Patient Allowance Account
Statement Of Revenue And Expense
For The Period January 1, 2001 Through December 31, 2001**

Beginning Balance January 1, 2002	\$406,198.72
Receipts	\$246,562.56
Disbursements	(\$248,782.33)
Ending Balance June 30, 2002	\$403,978.95

Plant Account
Statement of Revenue And Expense
For The Period January 1, 2001 Through December 31, 2001

Beginning Balance January 1, 2001		\$7,554,820.97
Receipts		
Transfer from General Fund	\$2,100,000.00	
Interest Earned	\$249,622.70	\$2,349,622.70
Disbursements		
Transfer to General Fund		(\$2,817,166.00)
Ending Balance December 31, 2001		\$7,087,277.67

Plant Account
Statement of Revenue And Expense
For The Period January 1, 2002 Through June 30, 2002

Beginning Balance January 1, 2002		\$7,087,277.67
Receipts		
Interest Earned		\$45,890.64
Disbursements		
Transfer to General Fund		(\$370,000.00)
Ending Balance June 30, 2002		\$6,763,168.31

* Refer To Notes To Financial Statements For Explanation Of Activity

Notes To Financial Statements

Note 1: Plant Fund

The plant fund was required by the State during the period of time when the State funded long term care facilities based on a direct allowable cost reimbursement. During this time the State would reimburse the annual depreciation expense of the facility. The facility was required to place the funds in a separate account. The account could only be used to fund capital projects and debt. Per discussion with Friendship Ridge Management the large balance in the fund is a result of the facility transferring operating surplus monies to the fund in anticipation of future capital project expenditures and debt retirement. In the 1990's the State changed the method of funding county long-term care facilities. The allowable cost method is no longer used. The facility is no longer required to maintain the plant fund or restrict the money in the plant fund to capital projects.

The Management of the Friendship Ridge has chosen to continue to maintain the plant fund rather than roll the balance into the facilities general fund. The fund continues to be used to finance capital projects. Each year the Management of Friendship Ridge will determine the dollar amount to be spent on capital projects during the prior year. This amount will be transferred from the general fund to the plant fund. The following year the actual amount spent on capital projects will be transferred from the plant fund back into the general fund. The amount of the principal payment due on the facilities general obligation bonds are also transferred from the plant fund back into the general fund each year.

As of June 30, 2002, no money has been transferred from the general fund during 2002 to fund 2001 capital projects. On July 1, 2002 \$2,454,515 was transferred from the plant fund to the general fund. This was to fund the amount expended on capital projects during 2001.

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September 2002

Mr. William Jubeck, Administrator
Friendship Ridge Long Term Care Facility

Report On Internal Controls

We have audited the records of the Friendship Ridge Patient Allowance and Plant Accounts and have issued our report thereon dated September 2002.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller of the Currency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial records are free of material misstatement.

In planning and performing our audit of Patient Allowance and Plant Accounts we considered the office's internal control structure to determine our auditing procedures for the purposes of expressing our opinion on the financial records and the office's compliance with applicable regulations and not to provide assurance on the internal control structure.

The management of the office is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with prescribed policies. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, future reliance on any evaluation of the structure, past or current, is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may

deteriorate.

For the purpose of this report, we have classified the significant internal control structures into the following categories:

Cash receipts
Cash disbursements
Cash balances

Reporting
Compliance

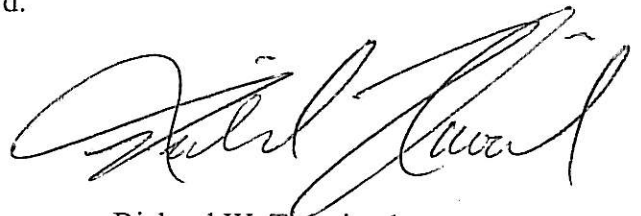
For the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation. Additionally we assessed control risk for all internal control structure.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the office's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce, to a relatively low level, the risk that material errors or irregularities affecting the financial statements being audited may occur and not be timely detected by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we noted the following conditions that we believe to be material weaknesses in all control areas listed above. These weaknesses are discussed in detail in the finding section of this audit report.

This report is intended solely for the information and use of management, the office of the controller, and others within the administration. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



Richard W. Towcimak
Beaver County Controller

Findings And Recommendations

Finding 1: Plant Fund Bank Account Should Be Under The Control Of The County Treasurer

The plant fund is county money held in account at National City Bank. The investment authority of the plant fund is under the control of the Fiscal Services Manager of Friendship Ridge.

Per County resolution 123196-50 the County Commissioners authorized the Fiscal Services Manager of the Geriatric Center (now Friendship Ridge) to make investments on behalf of the facility.

This is in violation of section 1762 of the County Code. Section 1762 of the County Code states: "The county commissioners together with the county treasurer shall, from time to time designate, by resolution, a depository or depositories for all county funds to be deposited. Such depositories shall be banks, banking institutions or trust companies, located in the Commonwealth." Section 1762 (c) states "Withdrawals from such depository shall only be drawn by the treasurer, upon properly authorized checks or by other commercially accepted methods of electronic funds transfer which have been specifically approved by the board of commissioners.

Per the County Code the County Treasurer is the only person authorized to withdraw or move county funds for investment or any other purpose.

It was also noted that Friendship Ridge was receiving a lower rate of return on the plant fund than the County was receiving on funds invested by the County Treasurer. Based on testing, an additional \$10,000 in interest would have been earned for the year 2001 if the funds were invested by the County Treasurer in the PLIGIT investment account.

As of September 2002 the Fiscal Services Manager, Administrator, and Payroll Supervisor at Friendship Ridge are still authorized by National City Bank to wire funds between the plant fund and the National City Bank investment account. The most current wire transfer agreement with National City Bank authorizing this was signed by the Chairman of the Board of Commissioners on February 23, 2001.

Recommendation:

We recommend that the County Code be followed and the investments authority of the plant fund should be transferred to the County Treasurer.

Finding 2: Funds Are Held In The Patient Allowance Account In The Name Of Patients That Are No Longer At Friendship Ridge

At June 30, 2002 the patient allowance account had open records for 943 patients that were no longer at the facility. 400 of these patients' records had a positive balance totaling \$153,000. 463 patients' records had a negative balance totaling \$25,000. 80 patients' records had a zero balance.

The patients' records with a positive balance represent patients that left the facility after 1995. These funds are awaiting escheat. If the funds are unclaimed after 7 years, the money will be escheated to the Pennsylvania State Treasurer.

The patients' records with a negative balance date into the 1970's and 1980's. Based on testing of the larger negative balances, it was determined that the facility received income or government subsidy on behalf of these patients. This income was receipted in the facility's general fund. It appears the facility properly paid the funds out to the patient from the patient allowance account to the patient when they left the facility. However, the funds were never transferred from the facility's general fund into the patient allowance account.

It was noted that the patient allowance account is used to house any charges unpaid by the patient or and subsidy that may be due to the patient after they leave the facility until final settlement can be made.

Recommendation:

We recommend:

1. All patient allowance records with a negative balance be investigated. Any shortages in the records due to improper transfers should be corrected. Any shortages due to any unpaid charges at the time the patient leaves the facility should be collected. If collection can not be made, the amount should be funded through the general fund.
2. All records with a positive balance where the patient is no longer at the facility be reviewed for accuracy. Facility personnel should attempt to locate the patient or the family of the patient and disburse the funds in accordance with House Bill number 838. This bill delineates the hierarchy for distributing funds.
3. If the facility has lost contact with the patient and their family, the funds should be escheated to the State Treasurer as soon as possible.
4. All records with a zero balance where the patient is no longer at the facility should be closed.

Finding 3: Patient Allowance Account Records Are Not Closed In A Timely Manner

Patient allowance records for patients that died or were discharged from the facility in January of 2002, 2001, and 2000 were examined. 4 patients from January 2002, 5 patients from January 2001, and 7 patients from January 2000 had active records with a balance as of June 2002.

Recommendation:

We recommend patient allowance records be closed in a more timely manner. The management of the facility should monitor allowance account records of patients that die or are discharged from the facility to ensure that they are closed properly and timely.

Finding 4: Document Patient Authorization For Disbursements Made By Check From The Patient Allowance Account

When a patient requests a cash disbursement from their patient allowance account they are required to sign a log to document the disbursement. When the patient requests a check be issued from their account, the patient is only required to verbally authorize the disbursement. A copy of the check is placed in the patient's file. The patient is not required to sign a log authorizing this disbursement.

Recommendation:

We recommend the patient be required to sign a log documenting the authorization of all checks issued on the patient's behalf.

Finding 5: Insurance Premiums Paid On Behalf Of Patients Should Be Paid Through The General Fund And Reimbursed By The Patient Allowance Account

Patient's insurance premiums are due in advance of the coverage period. The State does not reimburse the patients for the insurance coverage in advance. The insurance premiums are currently being paid out of the patient allowance account. Therefore, the amount in the patient allowance bank account is less than the amount listed on the patients' records.

Recommendation:

We recommend all insurance payments be made from the general fund. Amounts should be transferred from the patient allowance account to cover these payments when the money is received from the State. The amount in the patient allowance bank account should always equal the total of the patient allowance account records.

An exit conference was held on October 2, 2002 at Friendship Ridge for the purpose of discussing the items presented in this report. Those in attendance were:

Friendship Ridge

William Jubeck – Administrator

Ronald Curcio – Fiscal Services Manager

Beaver County Controller's Office

S. Robert Marziano, Jr. - Chief Auditor

The results of the audit were discussed in their entirety during this conference.

A form has been enclosed with this report to be completed by the Friendship Ridge management. This form restates all findings noted in the audit. Friendship Ridge management is requested to complete the corrective action section for each finding. If no corrective has been taken please state this. Return this form to the Beaver County Controller's office within thirty days of receipt. This form will be incorporated and become part this report. A copy of this report will be distributed to the following:

Beaver County Commissioners
Beaver County Law Department